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MEMORANDUM

December 28, 1955

To : Chairman, Economic Defense Advisory Committee  
Through: The Executive Committee  
From : Chairman, Working Group No. III  
Subject: Coordination and Implementation of U.S. Policy on Economic Penetration of Underdeveloped Areas by the Soviet Bloc

Problem

The inability of Working Group No. III competently to discharge this function.

Background

1. EDC Working Group 5 prepared general policy papers last spring for both the CCB and the CFEPC with respect to the U.S. attitude toward the subject in hand. In Staff Study No. 12 of June 1955 of the CFEPC Economic Defense Policy Review, it set forth certain Suggested Courses of Action. This policy statement, while agreed inter-departmentally, has not yet been formally approved by the CFEPC or the NSC. Essentially, it was stated that it should be assumed initially that current U.S. foreign economic policies and programs adequately serve as the general counterweight to Soviet efforts toward economic penetration; but that the validity of this assumption should be examined and the possible need for ad hoc action by the responsible U.S. agencies should be considered. Working Group No. 5 was designated by the Executive Committee of EDC to maintain such a continuing examination and to consider the need for special U.S. action in particular instances. In carrying out this assignment the Working Group has initiated a number of research studies now in process of completion.

2. However, Soviet bloc actions and U.S. reactions since the meeting at the Summit have made it evident that the limitations, which Working Group No. 5 called attention to in Staff Study No. 12, have prevented it from performing this assignment. It was stated, in the Suggested Courses of Action, that Soviet bloc efforts must be examined, not only from the economic and political standpoints, but from the military and psychological as well. The Working Group noted, in this connection, that it had given consideration to the question of adequacy or inadequacy of existing U.S. governmental machinery for examining specific bloc efforts and concluded that, in general, the economic defense organization was adequate for dealing with the aspects of these problems with which it is concerned. In regard to the psychological aspects of the problem, while recognizing their importance, the Working Group stated that this subject was outside of its competence.

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3. The limitations of the Working Group have become clear since June 1955 as the bloc has put into effect a somewhat augmented program. Ad hoc action has been taken by various agencies in response to various initiatives. But the cases have not been examined by this Working Group nor have they been brought consistently to the attention of any offices or group competent either to examine the whole picture or to determine whether or not U.S. action—and what action—may be called for in a particular instance. As indicated in Staff Study No. 12, Soviet bloc methods of penetration, dictated as they are by the goal of domination, include not only East-West trade and military-economic aid, but, indissolubly, political, psychological and other "social" weapons. As such they require broad, not limited, coordination and foresight, and they require consideration of psychological warfare and public relations factors, as well as the more obvious political and economic aspects of the country and regional problems. A body competent to foresee, consider, coordinate, and obtain U.S. action in response (not to any U.S. initiative) to this aspect of the "cold peace" is thus believed to require the following characteristics:

- a) A direct channel to the NSC, in order to assure quick consideration of emergency measures during the current period of increasing Soviet activity;
- b) A functionally broad membership embracing competence over the political aspects, over the economic considerations, over the military factors, over the necessities and capabilities of intelligence research and over the problem of countering Soviet propaganda;
- c) An individual or core of staff free to exercise a continuous concern over the general problem, to the exclusion of other responsibilities.

4. In such a body, Working Group III would be competent to participate to the extent that East-West trade and its controls constitute aspects of the total economic relations under examination, between the U.S., the Soviet bloc, and a particular underdeveloped country or countries. With respect to economic aid and technical assistance—the other main aspects of the total economic relations in question—, these matters are not within the substantive responsibility of the economic defense organization and a coordinating body would certainly require this competence. It is the lack of such competence in these important aspects—not to mention the political and psychological—which has precluded the Working Group from even attempting to perform the major phases of its assignment.

#### Recommendation

That the existing assignment to Working Group No. III concerning Soviet economic penetration be modified so as to limit the Working Group's responsibilities to that of formulating recommendations, when necessary, to NSC for the suitable expression of economic defense concerns to those charged

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with establishing or continuing programs designed to check or meet Soviet efforts toward economic penetration of the Free World; and that NSAC consider the need and desirability of recommending the establishment within the U.S. Government of a competent mechanism for coordinating and implementing U.S. policy concerning economic penetration of the Free World by the Soviet bloc.

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